HSBC
Asset Management

April 11, 2022

VIA ELECTRONIC DELIVERY

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Money Market Fund Reforms, SEC Release No. IC-34441

Dear Ms. Countryman:

HSBC Global Asset Management (USA) Inc. ("HSBC") is pleased to take this opportunity to provide our comments on the money market fund ("MMF") reforms proposed by the Securities and Exchange Commission ("SEC") on December 15, 2021 ("Proposing Release").[1]

HSBC and its affiliates currently manage $119 billion in MMF assets globally, including $37 billion in Government and Treasury MMFs operating pursuant to Rule 2a-7 under the Investment Company Act of 1940 ("1940 Act") and $54 billion in "Low Volatility Net Asset Value" ("LVNAV") Prime MMFs outside the United States (USD equivalent). HSBC has managed MMFs for over 30 years.

While we do not currently manage a non-government institutional ("Institutional Prime") MMF under the 1940 Act, we believe our experience managing Prime MMFs in other regions and our broader experience in the US MMF industry gives us a unique perspective worth sharing.

As members of the Investment Company Institute, our views are reflected in the comment letter submitted by that organization. In this comment letter, we will not focus on each aspect of the proposed reforms but instead add two specific comments. First, we believe the SEC should reconsider the proposed "one-size-fits-all" approach to liquidity, in recognition that minimum liquidity levels are only one aspect of liquidity risk management. Instead, the SEC should consider linking minimum liquidity levels to individual investor concentration and/or investor type concentration with a minimum "floor". Second, we believe the proposed amendments, in particular the proposed swing pricing requirement, have the potential to limit new entrants to the market and to limit new product innovation to the detriment of investors and the stability of, and the competition within, the broader MMF industry.

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1 Money Market Fund Reforms, SEC Release No. IC-34441 (December 15, 2021), available at https://www.sec.gov/rules/proposed/2021/ic-34441.pdf.

I. Proposed Amendments to Portfolio Liquidity Requirements

The proposed reforms would increase a MMF's minimum daily liquid asset requirement from 10% to 25% of its total assets and weekly liquid asset requirement from 30% to 50% of its total assets. (Tax-exempt MMFs would continue to not to be subject to the daily liquid asset requirements of Rule 2a-7.) We believe these increases may not be necessary, and believe that the Proposing Release did not consider other means to achieve the SEC's objective to improve the resiliency of Prime MMFs. We believe there are other ways to achieve the SEC's objectives without the negative consequences of maintaining "one-size-fits-all" liquidity levels.

We agree that maintaining an understanding on how individual shareholders use a MMF can be helpful in managing liquidity risk and support Rule 2a-7's current "know your client" requirement.[2] In our view, however, there are limits to "knowing your client." Not only does it take time for fund managers to build an accurate profile of a MMF's shareholders and to understand an individual shareholder's liquidity preferences, but the use of "omnibus accounts" masks individual shareholder activity and many investors, due to the nature of their business and their usage of MMFs, have unpredictable cash flow needs that even the investors cannot predict. "Knowing your client" is certainly an imperfect science

A key tool we employ in the management of our MMFs globally, including for example our US 2a-7 MMFs and EU-domiciled USD Prime MMFs, to support liquidity risk management is through the monitoring and control of individual investor concentrations and investor type concentrations. For example, we seek to limit individual investor concentration in each MMF to a target maximum of 5% of the fund's assets. We also seek to limit aggregate investments from investors operating in two specific sectors that have historically shown greater volatility to a target maximum of 25% of the fund's assets.

In our opinion, simply managing the liquidity profile of a fund's assets is only managing half of the risk. By monitoring and seeking to limit investor concentration, we are better able to manage the demand for liquidity plan accordingly. The current daily and weekly liquid asset requirements prescribed by Rule 2a-7 are a "one-size-fits-all" approach that takes no direct consideration of the different levels of individual investor concentration or investor type concentration. The proposed reforms double down on this construct.

We instead believe that a requirement for a MMF to employ a rising level of liquidity from a minimum floor based on individual investor concentration levels and/or investor type concentration levels is worth further consideration by the SEC to help enhance a MMF's liquidity risk management. As with many proposals, there are benefits and trade-offs that merit debate. We would be interested to discuss this idea in more detail.

II. Potential to Limit New Entrants to the Market

Under the proposed amendments to Rule 2a-7, the SEC would impose a mandatory swing pricing regime as a new mechanism for Institutional Prime MMFs to allocate perceived dilutive redemption

[2] *See* Money Market Fund Reform, SEC Release No. IC-29132 (Feb. 23, 2010) at 52, available at https://www.sec.gov/rules/final/2010/ic-29132.pdf ("To comply with [Rule 2a-7(d)(4)], we would expect money market fund managers to consider factors that could affect the fund's liquidity needs, including characteristics of a money market fund's investors and their likely redemptions.")

costs to redeeming investors and eliminate a potential first-mover advantage. In addition to the increased operational complexity and costs associated with the proposed swing pricing requirement, this proposal has the potential to make it more difficult to launch a new Prime Institutional MMF.

Investors in MMFs typically have a preference for larger funds, based on assets under management. Larger MMFs are perceived by some investors as being better able to manage redemptions. It is our view that the proposed amendments would only serve to solidify this preference for larger MMFs. Investors in Prime Institutional MMFs are likely to view funds with greater assets under management as being less likely to incur redemptions greater than the 4% "market impact threshold." If smaller MMFs are perceived as more likely to have daily redemptions in excess of the 4% "market impact threshold," they may be considered by investors to be more likely to apply a greater swing factor, taking into account more than just the bid price of the portfolio. This perception by investors will likely make it more challenging for new entrants to launch new Prime Institutional MMFs.

The number of Prime Institutional MMFs available to investors has shrunk in the last decade. According to data provided by iMoneyNet, at the end of 2012, there were 53 fund sponsors managing Prime Institutional MMFs. As of March 31, 2022, however, that number has reduced to 16. With fewer Prime Institutional MMFs available to investors and increased challenges faced by new entrants, it is unlikely that the number of Prime Institutional MMFs in the market will reverse this trend. We believe the SEC should more carefully consider the impact of its proposals on industry concentration (which has increased over the last decade) and how such concentration will ultimately affect investors and the broader MMF industry in the long term.

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HSBC appreciates your consideration of its perspective on these important issues facing MMFs and their investors. We welcome the opportunity to discuss these ideas further and provide any additional information that the SEC might find helpful. Please do not hesitate to contact the undersigned with any questions.

Respectfully submitted,

Paul Dawe
Chief Executive Officer and Chief Operating Officer